

TECHNICAL INFORMATION RELEASE

TIR 19-6: Impact of the Federal Tax Cuts and Jobs Act on a Taxpayer's Overall Method of Accounting for Massachusetts Purposes

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REFERENCED SOURCES:

[Massachusetts General Laws](https://malegislature.gov/Laws/GeneralLaws) (<https://malegislature.gov/Laws/GeneralLaws>)

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I. Introduction and Background

On December 22, 2017, Public Law 115-97, commonly known as the Tax Cuts and Jobs Act (“TCJA”), was signed into law. This Technical Information Release (“TIR”) explains how a taxpayer’s overall method of accounting for Massachusetts tax purposes is impacted by the TCJA changes to Internal Revenue Code (“Code” or “IRC”) § 448. The TIR also explains how taxpayers affected by the changes to IRC § 448 must report for Massachusetts purposes any adjustments to income required as a result of the change in accounting method.

II. Changes to IRC § 448, Limitation on Use of Cash Method of Accounting

A C corporation, partnership with a C corporation partner, or tax shelter (as defined in IRC § 448(d)(3)) may not compute taxable income under the cash method of accounting unless it meets one of the three exceptions listed in IRC § 448(b). One exception, found in IRC § 448(b)(3), provides that a C corporation or partnership with a C corporation partner that meets the gross receipts test under IRC § 448(c) for the taxable year may use the cash method of accounting.

Prior to the TCJA, the exception in IRC § 448(c) provided that a corporation or partnership met the gross receipts test and was eligible to use the cash method of accounting if the average gross receipts of such entity for the 3-taxable-year period ending with the taxable year that preceded such taxable year did not exceed \$5,000,000.

Under IRC § 448(c) as amended by the TCJA,^{[\[1\]](#) ([#_ftn1](#))} a C corporation or a partnership with a C corporation partner meets the gross receipts test and may use the cash method of accounting if the average annual gross receipts of such entity for the 3-taxable-year period ending with the taxable year that precedes such taxable year does not exceed \$25,000,000.

In many cases, a change in accounting method will result in the omission or duplication of taxable income and deductions for federal tax purposes. Code § 481 requires any taxpayer changing accounting methods (whether or not pursuant to IRC § 448) to make adjustments to obtain a fairer picture of taxable income. Code § 481(a) requires a taxpayer to adjust its income in the year of the change to prevent amounts from being duplicated or omitted as a result of the change.^{[2] (#_ftn2)} Code § 481(b) limits the amount of tax due where accounting method changes trigger IRC § 481(a) adjustments resulting in a substantial tax increase. Newly added IRC § 481(d) creates special rules for adjustments attributable to conversion from an S corporation to C corporation.

All taxpayers filing to change their overall method of accounting are required to complete IRS Form 3115.

III. Change in Overall Accounting Method for Massachusetts Corporations

For purposes of the excise under G.L. c. 63, Massachusetts generally adopts the Code as currently in effect. G.L. c. 63, § 1. Therefore, Massachusetts C corporations, S corporations, financial institutions and other business corporations determine taxable income for Massachusetts tax purposes by referring to their federal gross income for the taxable year, except as otherwise provided. See G.L. c. 63, §§ 2A, 30, 32D. As a result, a Massachusetts corporation that changes its accounting method for federal tax purposes will also be required to change its accounting method for Massachusetts tax purposes.

To change its overall method of accounting for Massachusetts purposes, a corporate taxpayer should file its annual tax return using the new method and provide a copy of IRS Form 3115. A taxpayer must spread the income adjustments required by the change as required federally under IRC § 448(d)(7) and Treas. Reg. § 1.448-1(g)(2). However, the relief afforded under IRC § 481(b) is not available for Massachusetts purposes because it involves a calculation of the federal tax liability and a forgiveness of tax, rather than a determination of federal gross income. See TIR 87-14; TIR 87-15. A taxpayer whose IRC § 481(a) adjustments are limited by § 481(b) for federal tax purposes must report all § 481(a)

adjustments as income in the year of the change for Massachusetts tax purposes, except as allowed by § 481(d).

IV. Change in Overall Accounting Method for Massachusetts Chapter 62 Taxpayers

With respect to taxpayers subject to the personal income tax under G.L. c. 62, gross income means federal gross income as defined under the Code, with certain modifications required under G.L. c. 62, §§ 6F and 2(a). G.L. c. 62, § 2(a). Chapter 62 defines the term “Code” as the Internal Revenue Code as amended and in effect on January 1, 2005, with certain exceptions. G.L. c. 62, § 1. However, in certain instances, Massachusetts specifically adopts provisions of the Code as currently in effect.

Massachusetts law requires that a chapter 62 taxpayer use the same method of accounting for Massachusetts purposes as it does federally. See DOR Directive 02-13. Additionally, flow-through entities with individual members or partners^{[\[3\]](#) (#_ftn1)} that change their method of accounting for federal tax purposes must also change their method for Massachusetts purposes. See TIR 87-14.^{[\[4\]](#) (#_ftn2)}

Chapter 62 taxpayers must request permission from the Department of Revenue to change accounting methods for Massachusetts purposes, pursuant to GL c. 62, § 62. See DD 02-13. Accordingly, such taxpayers should file their Massachusetts return for the taxable year of the change with a copy of IRS Form 3115 and any statement required to be filed federally. *Id.* The Commissioner will be deemed to have automatically approved such request. *Id.*

As with corporations, a partnership or LLC changing its overall method of accounting must file its annual tax return using the new method and attach a copy of Form 3115. Such taxpayers must spread the income adjustments required by the change in the same manner as required federally under IRC § 448(d)(7) and Treas. Reg. § 1.448-1(g)(2). A partnership or LLC whose IRC § 481(a) adjustments are limited by IRC § 481(b) for federal tax purposes must report all IRC § 481(a) adjustments in the year of the change for Massachusetts tax purposes, except as allowed by IRC § 481(d).

/s/Christopher C. Harding
Christopher C. Harding
Commissioner of Revenue

CCH:RHF:wm

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[\[1\]](#) ([#_ftnref1](#)) TCJA § 13102.

[\[2\]](#) ([#_ftnref2](#)) For certain changes in the method of accounting used, an applicant must make the change on a cut-off basis or modified cut-off basis, in which case there is no § 481(a) adjustment. See, e.g., Treas. Reg. § 1.446-1(e)(2)(ii)(d)(5)(iii).

[\[3\]](#) ([#_ftnref1](#)) Massachusetts pass through entities, whose income is taxable to the individual members or partners, also determine taxable income by referring to federal gross income for the taxable year as defined by the Internal Revenue Code as amended as of January 1, 2005. G.L. c. 62, §§ 1, 17.

[\[4\]](#) ([#_ftnref2](#)) TIR 87-14 addressed IRC § 448(c) after the section was added by the 1986 Tax Reform Act. The TIR explained the Massachusetts treatment of that section and provided further that Massachusetts taxpayers are required to use the same accounting method as they do federally.

REFERENCED SOURCES:

Massachusetts General Laws (<https://malegislature.gov/Laws/GeneralLaws>)

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